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SUBJECT: PANAMA: DOMESTIC POLITICS HAUNT FTA

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Classified By: POLCOUNS Brian R. Naranjo. Reasons: 1.4 (b) and (d).

SUMMARY

1. (S//NF) As Panama enters the final stretch of its general election campaign season, politics has come to haunt the U.S.-Panama Free Trade Agreement (FTA). "Forget about the FTA," governing Revolutionary Democratic Party (PRD) presidential candidate Balbina Herrera declared on April 19 to law students at the University of Panama. Meanwhile, Alliance for Change presidential candidate Ricardo Martinelli stumbled in releasing a statement of support for the Torrijos Administration's efforts to put the FTA on a path to ratification in the U.S. While the final version of the Martinelli statement avowed support for Torrijos' efforts to secure FTA ratification, an unauthorized draft published by Panama City daily La Estrella put down a marker warning the Torrijos Administration not to commit Martinelli to any course of action, including specifically regarding the exchange of banking information. Increasingly, Panamanian opinion leaders are questioning what Panama's efforts -- negotiations, high-level visits and engagement, and money spent on lobbying -- have gotten Panama. There is still time to take advantage of a narrow window of opportunity in Panama to resolve outstanding FTA-related issues. The Torrijos Administration remains committed to addressing labor concerns and immobilizing bearer shares. The Torrijos Administration understands that it is under G-20/OECD pressure to conclude tax information exchange agreements (TIEAs), but does not have the political capital to tackle a TIEA with the U.S. during the less than seventy days that it will remain in office. While the scenario for moving forward on these issues could become more difficult after the May 3 general elections, that scenario will only worsen after Martinelli is sworn in as president, as expected, on July 1.

Balbina: "Forget About It"

2. (SBU) Speaking to law students at the University of Panama while President Torrijos was at the Summit of the Americas in Port of Spain, Herrera responded to a question about the FTA, blurting out, "Forget about it." She added, "I am an agronomist, and I'll tell you that people are going to learn to love the 'countryside (campo)'," referring to

workers in Panama's agricultural sector.

Martinelli Stumbles with Pro-FTA Statement

¶3. (S//NF) "We recognize the efforts of Panama's Foreign Minister, Samuel Lewis Navarro and our Ambassador in Washington, Federico Humbert . . . ," Martinelli declared on April 9 in a press statement entitled "Martinelli Congratulates the Foreign Minister." In the version of this statement carried by Panama City daily La Estrella, but not in any other media, this opening sentence continues, stating, ". . . and we will always support (the Torrijos Administration) as long as they do not commit us to take future actions such as the exchange of banking information without consulting and reaching consensus with the private sector and the Alliance for Change." Martinelli's lead campaign advisor Demetrio "Jimmy" Papadimitriu clarified for POLCOUNS on April 20 that La Estrella published an unapproved draft of the statement. Papadimitriu said that this opening sentence in the approved final version ended as follows: ". . . and we will continue to support an open and transparent process to obtain the ratification of the FTA." Papadimitriu said that the campaign's press secretary had sent the erroneous draft, which made specific reference to the exchange of banking information, to La Estrella without his approval. Papadimitriu changed the final wording of the opening lines to underscore the candidate's support for the FTA and his call for "an open and transparent process."

FTA Exhaustion Setting In

¶4. (C//NF) Meanwhile, Panama's chatter-atti and commentators have been giving popular voice to a growing FTA exhaustion. Essentially, the basic expression of this exhaustion boils down to: a plaintive review of the litany of the efforts to secure a FTA -- three years and ten rounds of negotiations, USD 6.2 million spent on lobbying efforts, and numerous high-level delegations back and forth between Washington and Panama -- that concludes with the rhetorical question, "Where has all this effort gotten Panama?"

Political Analyst Worried About Governability

¶5. (S//NF) "Martinelli's victory is going to be like a seismic event in Panama's political order," political analyst Jose Blandon told POLCOUNS on April 21. This PRD-friendly analyst asserted that Martinelli's victory would touch off a wave of in-fighting not only within the PRD, but also within the Panamenista Party, Panama's largest opposition party. Blandon cautioned though that a Martinelli Administration would not be fully stood up and capable of grappling with tough FTA-related issues for at least one year. (Note: Martinelli's lead campaign advisor Jimmy Papadimitriu predicted that a prospective Martinelli Administration would need seven to eight months to find its sea legs. (REFTEL)) Blandon assessed that the PRD's electoral losses would be a traumatic event -- it would not only lose the presidency, but, he believed, lose a significant number of seats in the National Assembly -- that would touch off a struggle for control of the party among Torrijos, Herrera, Vice Presidential candidate Juan Carlos Navarro, former President Ernesto "El Toro" Perez Balladares, and National Assembly Deputy Hector Aleman. In perhaps the first public move in the struggle to control the PRD, First VP and FM Samuel Lewis said in a radio interview that, once he stepped down from office, he would dedicate himself to his businesses and to grassroots political work, ostensibly to make a run for president in 2014. Meanwhile, traumatized by its inability to secure top billing in a grand opposition alliance, the Panamenistas, though part of a winning Martinelli-led coalition, could also be torn apart by jockeying for position among former President Guillermo Endara (who already broke to

form his own Moral Vanguard of the Nation party), former President Mireya Moscoso, Martinelli VP running mate Juan Carlos Varela, and former primary presidential candidate Alberto Vallarino. "By scrambling the political structure of Panama," Blandon concluded, "Martinelli's victory raises real concerns about his ability to govern once he is inaugurated."

Comment

15. (S//NF) Panama's campaign season is coming down to the wire. Trailing badly in the polls and desperate to gain traction and forward momentum, Herrera is trying to tap into nationalism and rural voters who could suffer from the impact of lower tariffs on U.S. agricultural products by asserting that Panama should "forget about" the FTA and instead indulging in the notion of a romantic renaissance in the "campo." Martinelli, focused on maintaining his alliance's unity and significant momentum in the polls, is thinking solely about victory at the polls, not governance issues such as securing ratification of the FTA. Clearly though, there are powerful interest groups in the Martinelli camp that nearly succeeded in putting the candidate on record to block any Torrijos Administration deals on tax havens and the exchange of tax information. Our own encounters with the lawyers who lead powerful business organizations have confirmed our fear that they see a Martinelli victory as an avenue to shut down movement to immobilize bearer shares and introduce transparency into the financial sector. We note with dismay that these same forces did succeed in including in Martinelli's published platform a plank saying Panama would retaliate against countries who put Panama on a black list by denying corporations from countries that blacklist Panama the ability to compete in public sector bids (such as bids for work on the Panama Canal expansion project). Candidate Martinelli himself, on the eve of the G-20 Summit, stated for the cameras that Panama was not a tax haven. While we are grateful that he stopped short of Herrera's flat call to forget the FTA, we underscore that progress on the package of issues -- labor, bearer shares, enhanced exchange of banking information -- will be much harder after the new government takes office on July 1 than it is now, and it is not easy now. FTA exhaustion has well and truly set in here in Panama.
STEPHENSON